Kyiv National University of Trade and Economics

Economics and Finance of Enterprise Department

FINAL QUALIFYING PAPER

on the topic:

Diagnostics of the financial crisis of an enterprise

(based on the materials LLC Ukraine of Auchan Retail, Kyiv)

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АНОТАЦІЯ

Дах Дональд Зи «Діагностика фінансової кризи підприємства» (за матеріалами ТОВ «««Ашан Україна Гіпермаркет», м. Київ). – Рукопис.

Випускна кваліфікаційна робота за спеціальністю 051 «Економіка», спеціалізація «Фінансовий менеджмент» − Київський національний торговельно-економічний університет – Київ, 2019.

Випускну кваліфікаційну роботу присвячено теоретичним, методичним і практичним аспектам діагностики фінансової кризи на підприємстві торгівлі. Представлена робота дозволяє дослідити основні засади, методи та засоби визначення фінансової кризи на підприємстві торгівлі та сформувати пропозиції щодо її подолання.

Ключові слова: криза, діагностика, експрес-аналіз, ліквідність, платоспроможність, фінансова стійкість, банкрутство.

ABSTRACT

Dah Sié Donald "Diagnostics of the financial crisis of an enterprise" (based on the materials of LLC Auchan Ukraine Retail, Kyiv). − Manuscript.

Final qualifying paper on the specialty 051 "Economics", specialization "Financial management". – Kyiv National University of Trade and Economics. – Kyiv, 2019.

The final qualifying paper is devoted to theoretical, methodological and practical aspects of financial crisis diagnostics on the trade enterprise. It allows investigating the basic principles, methods and means of determining the financial crisis of trade enterprise and formation the proposals of its overcoming.

Key words: crisis, diagnostics, express-analysis, liquidity, solvency, financial stability, bankruptcy.

CONTENT

INTRODUCTION

Actuality of the theme. Nowadays every enterprise set stable development and efficiency as a target to achieve. This is due to market requirements to increase efficiency, implement successful management techniques and modern technologies surrounded by continuous competitiveness conditions. Solution to those problems is results of a comprehensive of effective ways of elimination of possible crisis situations in the enterprise, which allow making optimal management decisions for the further development of the enterprise and enhancement its performance or profitability. This situation which has arisen for today'speriod in domesticeconomy leads to active development of the crisisphenomenaboth on macro- and at the micro level, havingcarried out the activityanalysis of business subjects, becomesobviousthatmanyenterprisesworksisunprofitable, the amount of bankruptciesincreases. All these questions demandfrom the enterprises to use thosetoolswhichwill help to overcome the crisisphenomena in the activity and not to allowfurtherbankruptcy of theseenterprises. It has given an impetus for development and research of rather new type of management.

The conceptual foundations of the essence and theory of financial crisis diagnostic of enterprise are considered in the scientific works of domestic and foreign economists: R. Sneidere, I. Genriha, I. Voronova; K. Subatnieks were studying the possibilities of using the data in the financial analysis. In the research of A. Auzina and A. Zvirbule-Berzina the technical nature of the financial crisis and the solvency of the company was analyzed.

However, there are a number of theoretical and practical problems that remain unresolved both at the level of enterprises in general and at the level of individual branches. These should include the impact of the structure of assets the company onto results of its overall performance.

The purpose and tasks. The **purpose** of the research is to substantiate theoretical and methodological provisions for diagnostic of the financial crisis of the enterprise.

The following **tasks** were set and solved in the final qualifying paper in order to achieve this goal:

– to identify theoretical aspects of investigation the financial crisis of an enterprise;

– toanalyze the dynamics and structure of assets and sources of their formation of an enterprise;

– to conductexpress diagnostics of crisis state of an enterprise;

–toevaluate indicators of bankruptcy situation of an enterprise;

– to analyze the enterprise financial state in the planned period;

– to give proposals of enterprise's performance indicators improvement.

The object of the research is the processenterprise financial crisis diagnostics.

Thesubject of the research is theoretical-methodological and practical principles offinancial crisis diagnostics of an enterprise.

Auchan is a French multinational retail group headquartered in Croix, France. It was founded in 1961 by Gérard Mulliez and is owned by Mulliez Family, which has 95% stake in the company With 354,851 employees, of which 261,000 have 5% stake in the company, is the 35th largest employer in the world. The holding company, Auchan Holding, includes Auchan Retail International, Ceetrus, which operates shopping centers and Oney, which offers financial services. It operates as Alcampo in Spain, Auchan in Portugal, Ашан in Russia and Ukraine, and through a joint-venture as RT-Mart in China (Auchan brand is also used) and Taiwan. As of 2019, Auchan is one of the world's largest retailers with a direct presence in France, Spain, Portugal, Luxembourg, Poland, Romania, Hungary, China and Taiwan.

Methods of the research. The methodology used for data collection includes document review combining case study method thesis. Research methods were based on general scientific and empirical methodical techniques of economics. During the literature review economic-statistical and mathematical methods of analysis, abstraction techniques were used. Such general theoretical methods of

scientific knowledge as synthesis, deduction, induction and other methods were also used. Concerning methodical approaches, according to specific scientific (empirical) research of selected topics was conducted, among them the most frequently used in the work were calculation and analytical methods of comparison, data grouping, summarizing.

The main method used during practical part was linear regression analysis compared with descriptive and inferential analyses were conducted using Microsoft Excel.

The **information base** for research is articles, books and other scientific works of scientists regarding the importance and role of efficiency, performance or analysis of enterprise, methodical approaches to the implementation of a comprehensive economic analysis of the enterprises activity. Secondary data was retrieved from statistical, annual reports of enterprises for the period 2015-2018.

The **scientific novelty** of the results obtained is to conduct comprehensive financial analysis and to understand the factors that influence the companies' financial performance.

Practical meaning. The results of the conducted research and the suggested ways of optimization can be taken into account and used by the enterprise in the further decision-making concerning financial crisis diagnostics of an enterprise.

Approbation. The results of the study were presented at the enterprise for their further application and published in the collection of master's articles "Economics and Finance of Enterprise" in an article on the topic: "Diagnostic of financial crisis of the enterprise".

Structure of the paper. The logic of the research resulted in the structure of the work: introduction, 3 chapters, conclusions and proposals, references, 2 appendices. Total amount of pages in the work with appendices is 51 pages.

CHAPTER 1
THEORETICAL ASPECTS OF INVESTIGATION THE FINANCIAL CRISIS OF AN ENTERPRISE

Formal bankruptcy theory began with the recognition that a bankruptcy system is sometimes necessary to solve a collective action problem among the creditors of an insolvent firm. Insolvency may be a function of economic distress, financial distress, or both. Economic distress occurs when the firm cannot earn revenues sufficient to cover its costs, exclusive of financing costs. Such a firm has negative economic value. A firm is only in financial distress if it would have positive earnings were it not required to service its debt. Because a firm's debt is sunk when insolvency occurs, the existence of debt is irrelevant to the question of whether the firm should continue or not. Social welfare is maximized when economically distressed firms are liquidated but financially distressed firms are continued.

Early modern theory favored letting the market make the liquidation/continuation decision. More concretely, a state official should conduct auctions of insolvent firms, free of current claims, distributing the proceeds to creditors. If economic value would be maximized by a piecemeal liquidation, the highest bids will be for individual assets; if continuing the firm as an economic entity would maximize value, then the highest bids would be for the firm as a unit.

Early theorists believed that a bankruptcy system should strictly follow the absolute priority rule, which requires creditors to be paid in the order that the firm's contracts created. An implication of this rule is that equityholders – the owners-should receive nothing because the residual claim on an insolvent firm is worth nothing. Only distributional goals could justify violating absolute priority, but using a bankruptcy system to pursue such goals is questionable on two grounds. First, these goals are difficult to implement because parties can contract around the distributional rules through the price term or through other terms. For example, if a bankruptcy system is amended to subordinate senior creditor claims in order to

shift wealth to junior creditors, senior creditors can respond with increased interest rates or more rigorous lending terms. Consequently, bankruptcy systems cannot achieve distributional objectives in the long run. Second, distributional objectives are sometimes cast in social terms (for example, the law should attempt to save jobs). However, early theorists believed that a bankruptcy system was a poor vehicle for achieving social goals.

Modern theory relates the results of a bankruptcy procedure to earlier stages in the life of the borrowing firm. An ex post efficient bankruptcy system would maximize the payoffs that creditors receive from insolvent firms. For example, a system that rescues only financially distressed firms generates higher payoffs for creditors than a system that attempts to rescue economically distressed firms as well.

Analyzing theoretical sources on crisis issues includes different approaches to the definition of the essence of a crisis and possible reasons of its occurrence. According to Kindleberger and Aliber (2005), the essence of economic crises is found in overproduction in relation to effective total demand, in a mismatch of social capital, mass company bankruptcies, the rise in unemployment, and other social and economic shocks. At the same time, Ferguson (2009) states, that crises are cyclic (cyclicality is defined as a multifarious event, some of its forms have global character).

Cyclicalityis some kind of provision for the development of an economy in terms of market relationships. Cyclicality is considered as a form of progressive development of society. Crisis events in business operations happen with an escalation of misunderstandings, which occur as a result of the interaction of microeconomic systems with each other and with the external environment.

According to Cipriani and Guarino (2008), such misunderstandings are found between:

- The quantity and quality of production (goods and services) and the state of market demand;
- Actual and required enterprise productive capacity;

- Required volume of resources, which the enterprise needs, and the availability of its output (supply), its offer prices, and demand for the products;

- Actual and planned enterprise revenue distribution aimed at industrial and social development.

As Fried notes (2012), the first indicator of crisis is a distinct trend for increasing current expenses with the opposite trend of a decreasing amount of business, as well as sinking revenues and profits. Here, we mean actual revenue, not tax or accountant's debts, which can be "profitable" for the enterprise (for instance, in terms of tax savings). Misbalance of the required relationship between an enterprise's revenue (profit) and the cost of resources, between money received and money spent, between net worth and loan capital build to a consequence of a crisis state. Further crisis aggravation is characterized by deterioration of all indicators of a corporation's status (quantity as well as quality ones), which leads to gradual loss of net worth (net assets), and the appearance of financial deficiency for the settlement of its obligations.

As Shiller thinks (2008), the start of a crisis demonstrates the development of a gradual imbalance and a complete loss in the capability of internal self-regulation mechanism of the economic system. By the time a crisis appears, the economic system has reached the top of its possible development, where further development within the present paradigm is impossible.

It is possible to solve the accumulated disagreements only with thorough revision of all of the fundamental principles for running a business, coordination of the strategic vision of corporate mission, and the nature of enterprise activity, which provides a system's transition to a new balanced state, which is a necessary precondition for its further development. The literature review on this issue also shows that the overwhelming majority of authors deal with the problems of corporate or anti-crisis management. Some authors pay little attention to the adjustments needed when the strategic-management authorities realize that there is an adjustment required (James, 2007); others do not take into consideration the behavior of an organization when they begin anti-crisis management, as they

concentrate on the problems which must be solved to overcome the crisis, but not on who must find the solutions and in what way (Brace, 2012). The interdisciplinary nature of management (between corporate and anti-crisis management) comes from the research of Weiner (2006), and Campbell and Sinclair (2009). Anti-crisis management policies have been noted and analyzed by Bacon (2006), Greyser (2009), James and Wooten (2010), Hellsloot (2007), and Pauly and Hutchison (2005). These authors treat the problems of a crisis and the crisis situation in different ways. For example some scientists study anti-crisis management from the point of view of financial problems at the enterprise level (Hellsloot, 2007) that appear as a negative chain reaction from other enterprises. Others study the problems connected to the crisis of some individual enterprises and they review unfavorable financial conditions in the relevant country's economy (Pauly& Hutchison, 2005). According to Campbell and Sinclair (2009), strategic management in a crisis is a type of management aimed at defining the phenomena of a crisis and creating appropriate preconditions for well-timed prevention, weakening, and overcoming of the problems. That activity aims to support the life of the corporation, business activity, and the avoidance of bankruptcy. Crisis strategic management is a special system which is complex in character, and which can completely neutralize temporal difficulties for a corporation's work (Bacon, 2006).

The financial situation and solvency of the company are a topical issue for researchers and economists. More and more, there is a debate on various aspects of difficult problems directly. In the scientific field, new ideas, questions rehearing about relative issues, stability of the company, a financial situation and its possibilities of evaluation are proposed by R. Sneidere, I. Genriha and I. Voronova; K. Subatnieks (Subatnieks, 2007) studying the possibilities of using the data in the financial analysis.

In their research they analyzed the technical nature of the financial crisis and the solvency of the company. Some researchers published educational materials summarizing traditional methods of financial analysis to assess the financial

situation and results of commercial activities (Sneidere, 2007).

The following internationally recognized foreign researchers have studied insolvency and bankruptcy diagnostics issues, as well as have developed currently recognized business forecast models: E. Altman, 1968, L.A. Bernstein, 2000 (USA), R. Taffler, 1984 (UK), D.A. Botheras, 1979, J.G. Fulmer, 1984 (Canada), They have demonstrated that issues of the company's insolvency, financial status, potential and their assessment possibilities are upto-date issues nowadays.

Endeavor of economic stability, the crisis is often consecrated as a negative phenomenon (Rosenblatt, 1989) and its evolution is linked to certain changes. We note that there is a close relationship between creation and change, that is to say that the impulses of a positively resolved creed will be reflected in the successful development of the enterprise (Sakalas and Virbickaite, 2011, Meiste and Jakstiene, 2015). Some researchers stress the positive impact of the Creek on the continued economic development of the company if the crisis materializes in the beginning. K. Garskaite-Milvydiene (Garskaite-Milvydiene, 2014), which is a company threatened with bankruptcy, should be able to undergo a comprehensive assessment as a precautionary measure, the company has a chance to react quickly and reduce the threat of crisis development.

Identifying crisis situation is particularly important element in the process of crisis management of the enterprise(Ligonenko L.O.) (fig. 1.1).Diagnoses of the crisis of society during its first phase of development offer it the means to overcome the crisis, thereby preventing the development of bankruptcy and avoid significant financial losses. In this context, the need to quickly detect the symptoms of the crisis, predict its evolution and assess the likelihood of a crisis becomes crucial. All the tasks mentioned above are basic tasks of crisis diagnosis - a discipline of anti-crisis management.

Although several researchers and economists (Sakalas and Virbickaite, 2011, Garskaite-Milvydiene, 2014, Darling and Kash, 1998, Blank, 2006, Asaul et al., 2007, Korotkov, 2010) reiterate the benefits arising from the systematic implementation of effective crisis diagnostics to meet the needs of corporate

management, the problems of forecasting and crisis diagnosis are still poorly studied in terms of anti-crisis management in the economy and in management sciences.

1st stage. Diagnosis of a crisis state and bankruptcy risk

2ndstage. Determination of aims and tasks of crisis management

3rd stage. Determination of a subject of crisis management

4thstage. Estimation of time limits of a crisis management process

5th stage.**Estimation of resource potential of crisis management**

6thstage. Development of an enterprise crisis program

7thstage. Introduction of a crisis program and control over its implementation

Are the strategic goals of crisis management being achieved?

no

Partially

Correction and modernizatio

yes

Continuation of implementation of the developed crisis program

8thstage. Development and implementation of preventive measures to avoid crisis re
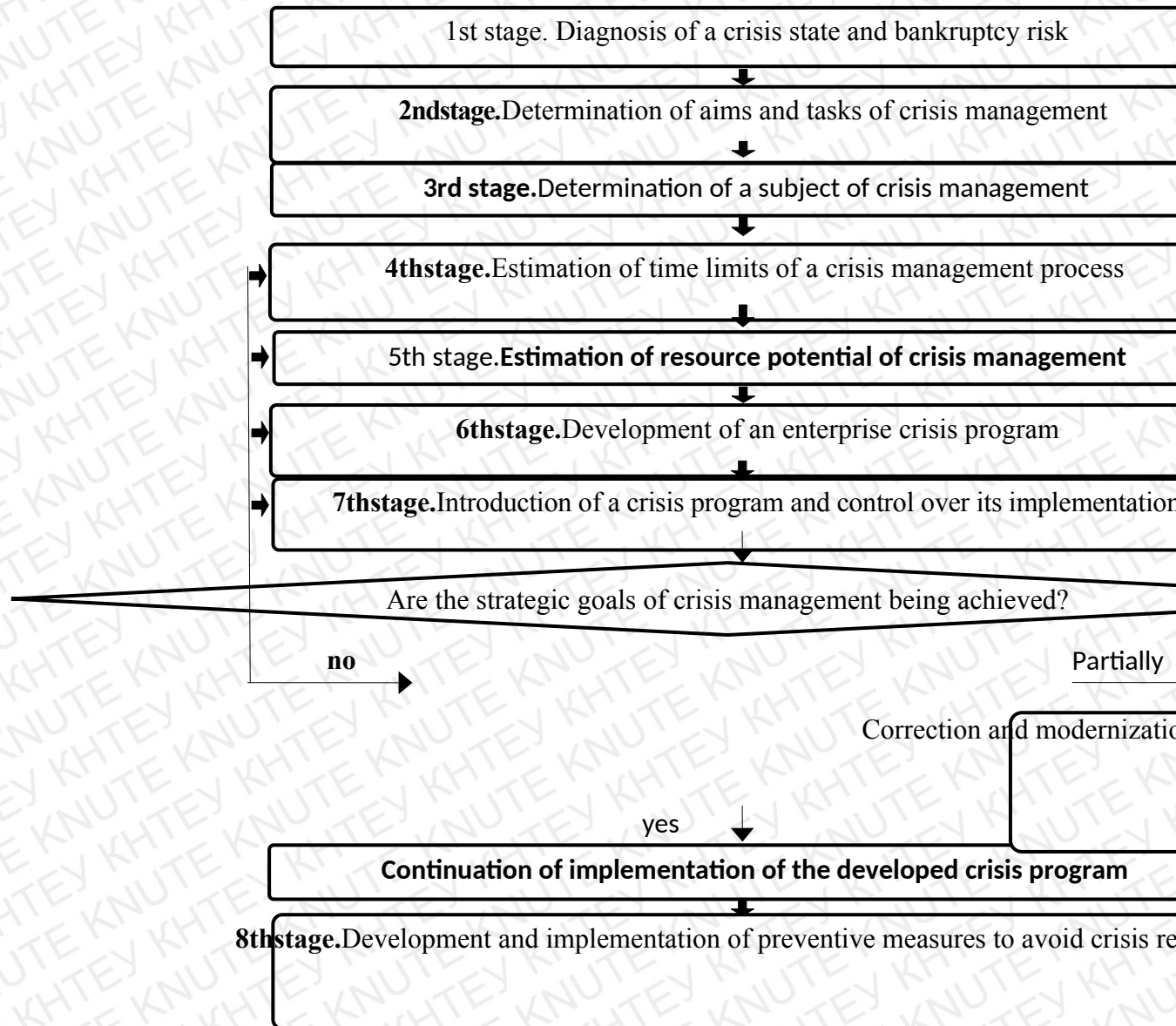
Figure 1.1 Model of corporate crisis management

In the current researches, the company's crisis diagnostics is defined as a systematic use of different models assessing the company's financial conditions, as well as detecting any indications of the crisis (Sakalas and Virbickaite, 2011; Garskaite-Milvydiene, 2014; Meiste and Jakstiene, 2015; Sabelfeld, Shavandina,
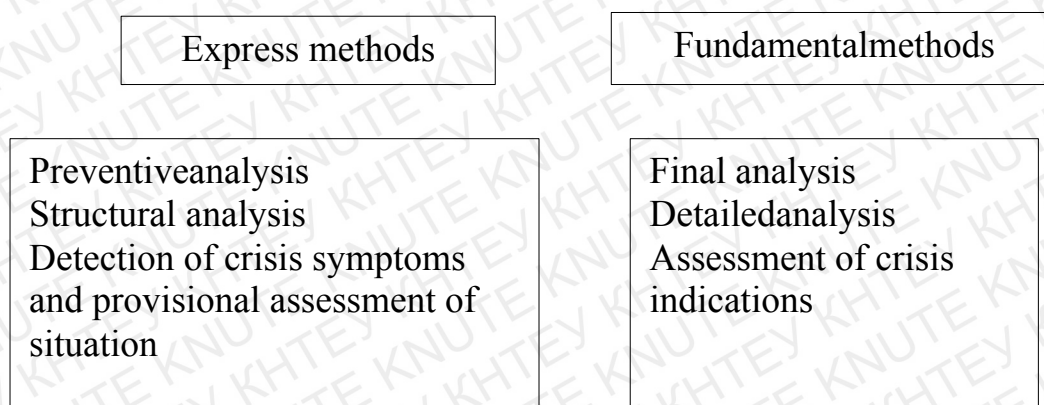
2006). It is considered as a separate anti-crisis management function, a specific stage (Bajmahambetova, 2010). Crisis diagnostics becomes of a particular importance both for the anti-crisis management, and for the classical management systems, as it has a multi-benefit basis. For example, it provides: additional test of quality of financial reports; reliable information on the real situation and resources; reasonable basis for management decision making; timely identification of indications of crisis possibility to save company's resources; basis for crisis forecasting and modelling; basis for development of a crisis management plan, etc.

According to modern techniques (Blank, 2006; GarskaiteMilvydiene, 2014) financial crisis diagnostics can be subdivided in two basic systems (fig. 1.1):

o   Crisis express diognostic system;

o   Crisisfundamental diagnostic system.

<div align="center">

Companycrisis Management system

System of methods for the company's crisis diagnostics

</div>

Express methods	Fundamentalmethods
Preventiveanalysis Structural analysis Detection of crisis symptoms and provisional assessment of situation	Final analysis Detailedanalysis Assessment of crisis indications

Source: by the authors, based on Kopitov and Dubko, 2009; Asaul et al., 2007; Tung,1993; Garskaite-Milvydiene, 2014

Fig. 1.2.System of methods for the company's crisis diagnostics

A financial index is various relative indexes which are calculated by comparison of certain absolute indicators of an economic and financial activity of enterprises. The financial ratios of companies in the retail industry as Auchan Group, assist management with the selling operations. As these financial ratios are analyzed by investors to determine the long-term security, short-term efficiency, and overall profitability of a retail company, it will also help us to reveal how successfully Auchan is selling inventory, pricing its goods, and operating its business as a whole. Here are the key ratios to be analyzed(Appendix A): liquidity / debt ratios, financial stability ratios, turnover ratios (business activity), profitability ratios.

CHAPTER 2
IMPLEMENTATION OF FINANCIAL CRISIS DIAGNOSTICS OF AUCHAN

2.1. Analysis of dynamics and structure of assets and sources

Over 55 years, the french company have been creating a history of everyday life, fuelled by their passion for service, products and customer satisfaction and they are inventing next-generation retailing the world over. In 1960s, lauch in the north of France a year later, Gerard Mulliez opened the first Auchan in the Roubaix, naming the company after the ''Hauts Champs'' neighbourhood where it was located. The first Auchan hypermarket opened in Roncq (North France). Since 1980s it start the international expension with the first store opened in spain. In 1983, the robin nesting in Auchan'sa became the company's symbol. The was the birth of ''Vie Auchan'' and 1996 was a year of historic growth with 3 key events:

• Acquisition of Docks de France, the company that owned the Mammouth hypermarkets and Atac supermarkets in France, and Sabeco supermarkets in Spain.

• Acquisition of Pao de Açucar, the owner of the Jumbo stores in Portugal.

• Opening of the first hypermarkets in Poland and Luxembourg.

And it was in 2008 the Launch of the first Auchan hypermarket opened its doors for Ukraine in Kyiv.

Operating in 19 countries and 3 continents, Auchan Holding combines 3 companies each working in complementary lines of business: Auchan Retail, trading in all forms of useful everyday consumer goods, Oney in banking to finance consumer buying, and Ceetrus in commercial real estate hosting our customers in modern and welcoming locations. Each business strives to strengthen its position in its core market through an economic and responsible approach while

pursuing profound transformations to achieve an ambitious and meaningful vision for the future. Auchan Holding is supporting these 3 in-depth, demanding but vital transformations through the engagement of its 358,914 employees, who are proud of this unique experience in their company's history.

Auchan Holding is composed by Auchan Retail, Ceetrus and Oney :

Auchan Retail combines all formats of the food trade with 4,084 banner sales outlets (hypermarkets, superstores, supermarkets and convenience stores), plus in some countries the welcome addition of e-commerce and drive-throughs. To build an all-powerful and modern business and change the lives of its customers, Auchan Retail's every move is totally customer-centred and focused on discount prices, a wide range of choices, high quality service, adjustment to local markets, and full consideration for multichannel shopping habits. With 354,851 employees, the company is the world's 35th largest employe.

At 31 December 2018, Auchan Retail operated in 14 countries through 963 hypermarkets, 1,041 convenience stores and 530 ultra-convenience stores. The consolidated store network at 31 December 2018, excluding the drive outlets, breaks down as follows:

Table 2.1

Representation of Auchan in different countries

Country	Hypermarkets	Convenience stores	Ultra-convenience stores
France	119	412	10
Italy	46	232	79
Spain	60	82	51
Portugal	29	5	
Luxembourg	1	5	
Poland	74	27	6
Hungary	19	5	
Romania	31	4	19
Ukraine	20	8	
Russia	62	231	12
Senegal	0	12	15
Mainland China	484	1	310
Vietnam	1	17	3
Taiwan	18		4
TOTAL	964	1041	530

CEETRUS engaged in a transformation process since 2016 and driven by its Vision 2030 plan, Immochan was renamed Ceetrus in June 2018. Evolving from commercial property to a mixed-use retail estate developer, Ceetrus's mission is to contribute to developing the social bond that will drive the city of the future through the creation of sustainable, smart and lively places to live and shop. This evolution is taking shape primarily on existing commercial sites. With the aim of enhancing their value and attractiveness to contribute to the success of its traders and partners, Ceetrus reinvents commercial sites by integrating housing, offices, leisure and urban infrastructure. Keeping a close eye on the city, the company also works with new programmes to provide each region with a comprehensive and tailored urban solution. The company has 1,124 employees.

ONEY is positioned as a different, one-of-a-kind bank with a commercial background. Oney relies on an original positioning and expertise developed over more than 35 years to create payment solutions and innovative financial services. Every day, nearly 3,000 talents around the globe reinvent the bank, working for a more human relationship with the mission of "giving everyone the freedom to be and act". With 400 business and e-commerce partners, Oney supports the projects completion of over 7.6 million customers around the globe by offering memorable shopping experiences in-store and online.

Business people use the term structure in quite a few different ways. The terms "governance," "business," and "legal," are all associated with their own "structures" for instance. These refer to aspects of the company set up and operation. Two other similar terms describe the nature of the company's financial position: Financial structure and capital structure. Both structures concern the "Liabilities + Equities" side of the Balance sheet equation:

Assets = Liabilities + Equities

▪ Financial structure refers to the balance between all of the company's liabilities and its equities. It thus concerns the entire "Liabilities+Equities" side of the Balance sheet.

▪ Capital structure, by contrast, refers to the balance between equities

and long-term liabilities. Short-term liabilities do not contribute to capital structure.

The component of capital structure are:

-        Owners shareholders' equity

-        Borrowed funds/ debt.

Non-current assets are cleverly defined as anything not classified as a current asset. The main line items in this section are long-term investments; property, plant, and equipment; and goodwill andother intangible assets (table 2.2).

Table 2.2

Dynamics of assets volume of Auchan retail, 2016-2018, ths. UAH

Indicators	2016 year	2017 year	2018 year	Absolute deviation 2018 / 2017	Growth rate, % 2017 / 2016	Growth rate, % 2018 / 2017
Non-currentassets	386621	410363	485315	74952	0,06	0,18
Currentassets	810959	1111539	1229307	117768	0,37	0,11
- stocks	436584	563075	733762	170687	0,29	0,30
-receivables	82979	130603	248921	118318	0,57	0,91
- cash	283585	196331	180360	-15971	-0,31	-0,08
- othercurrentassets	7533	6031	22245	16214	-0,20	2,69
Total assets	**2008261**	**2417942**	**2899910**	**481968**	**1**	**4**

The Auchan's inventory represents a significant proportion of its current assets, and so should be carefully examined. Since inventory requires a real investment of precious capital, the company will try to minimize the value of a stock for a given level of sales, or maximize the level of sales for a given level of inventory.

According to the table, we can see an increasing of the non-current assets by 0.06 from 2016 to 2017 and 0.18 to 2018. These increasing are due to the significant amount of investment of capital by Auchan in order to squeeze as much sales revenue out of them as possible. This indicates how efficiently Auchan is doing to get a competitive advantage on the retail market.

At the same time we notice improvement of the current asset with an decreasing of 0.37 and 0.11 respectively from 2016 to 2017 and 2017 to 2018. It is really important for the company because they indicate how much cash it essentially has access to within the next 12 months outside of third-party sources. It is indicative of how well Auchan's funds are ongoing, day-to-day operations, and how liquid it is.

However, the company encountered a negative cash balance in 2017 which reflects poor timing of income and expenses. But it has strived to correct it in 2018 with the cash of 180360.

Thinking of receivables as bills that a company sends its customers for goods or services it has provided but for which the customer has not yet paid but is expected to pay within the next year. Keep an eye on accounts receivable in relation toAuchan's sales. The accounts receivable are growing a bit faster than sales, it means a company is doing an ideal job collecting the money it is owed. But this difference could potentially be a sign of trouble because the company may be offering looser credit terms to increase its sales, it may have difficulty ultimately collecting the cash it's owed. But yet, Auchan's credit terms is convenient, at the expense of sales (table 2.3).

Table 2.3

Dynamics of theliabilities volume of Auchan retail, 2016-2018, ths. UAH

Indicators	2016 year	2017 year	2018 year	Absolute deviation 2017 / 2016	Absolute deviation 2018 / 2017	Growth rate, % 2017 / 2016	Growth rate, % 2018 / 2017
Equity	-86158	-371318	-571025	-285160	-199707	3,31	0,54
Long-termliabilities and ensuring	201893	395482	603405	193589	207923	0,96	0,53
Currentliabilities and ensuring	1081845	1497738	1682242	415893	184504	0,38	0,12
Balance	**1197580**	**1521902**	**1714622**	324322	192720	0,27	0,13

The figure 2.1 the increasing of the total assets of Auchan during the pass three (3) years. As the total assets is always equal total liabilities plus total equity. Thus, if the assets increase from one period to the next, we know that the company's liabilities and equity increased by the same amount. Now, let's analyzed the liability of the company to understand hoand its formation.

Total assets
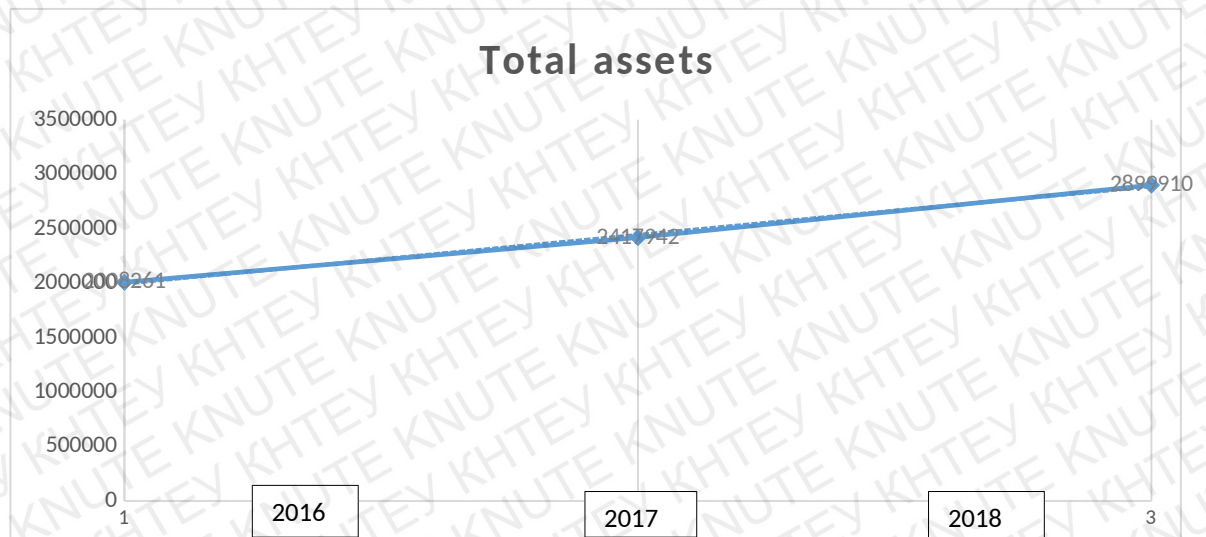
Figure 2.1. The dynamics of assets of «Auchan Group retail Ukraine.» during the period 2016 – 2018

The analysis of the dynamics of the volume liability of Auchan retail is represented in appendix B. This table shows us a clear view of the dynamic Auchan's equity and debts. By simple, view we can see that the equity goes from negative to negative value. It means that the total liabilities of the company are more than value of its total assets during the period of 2016 – 2018 and the reasons for such negative balance may include accumulated losses, large dividend payments, large borrowing for covering accumulated losses. This scenario is not good sign for Auchan as it could lead to some difficulties in getting further funds either through loans or equity and also may be classified as per laws as a sick company. However, every year from 2016, the company's long term and short term debts increase progressively. Our table indicates 0.96 increase of long term liability from 2016 to 2017 and also 0.53 increase from 2017 to 2018. Which

means that Auchan is financing its assets with debts instead of using equity. However, carrying a high level of long-term debt can present risks and financial challenges to the ability to thrive over time. We also assist of the increasing of the current liabilities that shows how good Auchan is able to manage its credit term with the third parties.

The figure 2.2 is a clear pictures of the structures of the formation of company's liability.
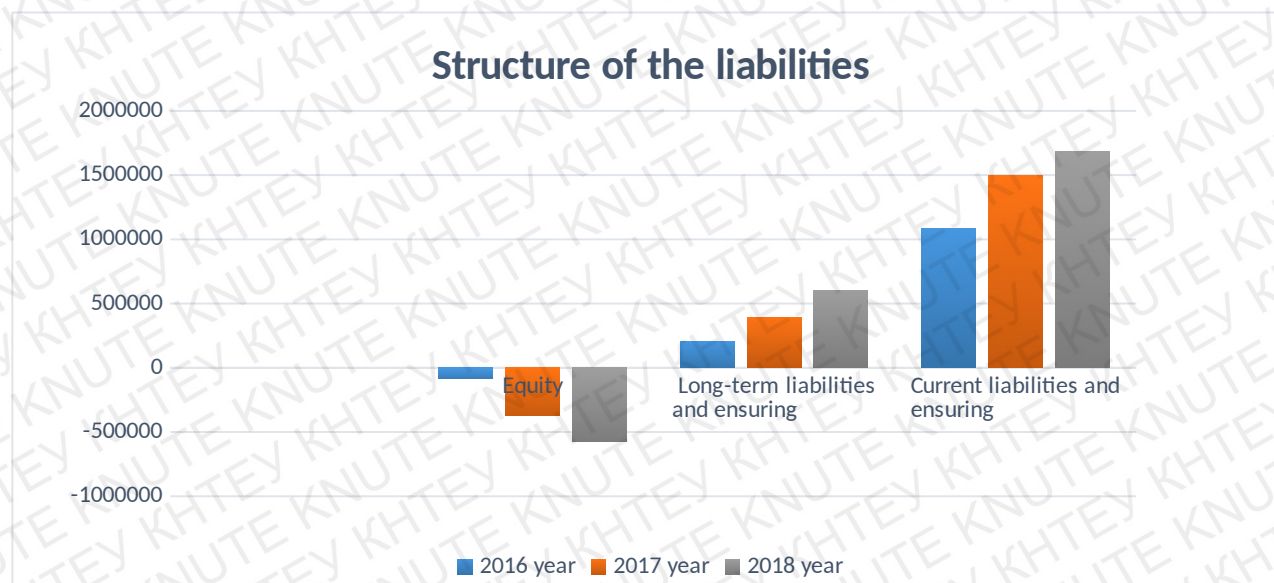
Figure 2.2 The dynamics of «Auchan Group retail Ukraine.»Liability during the period 2016 – 2018.

The French company has diversified its portfolio in different continents in order to build an all-powerful and modern business and change the lives of its customers. However, it operates with a low proportion of assets that are financed by the stockholders with a high capitalization ratio by using long term liabilities. Therefore, its return on equity indicates a low profitability and weak financial position of the company and cannot cover potential investors into actual common stockholders.

2.2. Express diagnostics of crisis state of the enterprise

Analysis of financial stability indicators of LLC Auchan group retail could be done based on the following indicators (table 2.4):

Table 2.4

Financial stability indicators of Auchan Group Retail, 2016-2018

Indicators	2016 year	2017 year	2018 year	Absolute deviation 2017 / 2016	Absolute deviation 2018 / 2017
Equity Ratio	-0,07	-0,24	0,33	-0,17	0,58
Debt Ratio	1,07	1,24	1,33	0,17	0,09
Capitalization Ratio	1,74	16,37	18,64	14,62	2,27
Accounts Payable-to-AccountsReceivable Ratio	4,73	5,42	3,71	0,69	-1,71

1. Equity.

Auchan has very low equity ratio according to the table, the equity ratio of Auchan has decreased from 2016 to 2017 by - 19% it means that the part of the asset financing by equity is less than part of asset financed by debt. We observe a slight increasing of the portion of equity in 2018 by -9%. The general observation of auchan's equity during 3 years shows that the company is using debts instead of its own resources to finance the asset. It has been demonstrated by by the negative equity ratios. Therefore, the company is considered to be leveraged company. Auchan pay more interest on rather than dividends to stockholders.

2. Debt ratio.

This ratio shows that debts of Auchan are above the standard which is 1. It simply means the the company's financial health is does not follow the normal indication. The debt ratio of Auchan increasing from 2016 to 2017 gradually by 17% and by 9% in 2018. That means Auchan has high insolvent risk since excessive debt can lead to a heavy debt repayment burden.

3. Capitalization Ratio.

The capitalization ratio of Auchan increased rapidly by 1.74in 2016, by 16.37 in 2017 and 18.64 in 2018 this high increasng means that Auchan losing it ability of borrowing money in the futur. It is considered to be risky as there are risk of insolvency if they fail to repay their debt on time.

4.   Accounts Payable-to-Accounts Receivable Ratio.

This mesurement of short-term liquidity used to quantify the rate at which Auchan pays off its suppliers. The Accounts Payable-to-Accounts Receivable Ratio shows that Auchan pays off its suppliers 4.73 times in 2016 and has passed from 5.42 in 2017 to 3.71 in 2018. This is du to the good negociation of the of the credit by company with its suppliers. Its demontrate the efficiency of Auchan in credit term managemnt to paying off its suppliers and short-term debts.

Analysis of turnover indicators of LLC Auchan group retail could be done based on the following indicators (table 2.5).

Table 2.5

Turnover indicators of Auchan Group Retail, 2016-2018

Indicators	2016 year	2017 year	2018 year	Absolute deviation 2017 / 2016	Absolute deviation 2018 / 2017
Asset Turnover	5,38	5,57	5,82	0,18	0,26
Inventory Turnover	12,79	10,36	9,91	-2,44	-0,44
AccountsReceivable Turnover	121,35	120,54	78,36	-0,81	-42,18
Accounts Payable Turnover	15,14	15,96	10,94	0,82	-5,03
Days Inventory Outstanding (Days Sales of Inventory)	2,56	2,54	3,85	-0,03	1,32
Cash Conversion Cycle	-21,21	-20,01	-29,06	1,20	-9,04

The asset turnover ratio is an efficiency ratio that measures a company's ability to generate sales from its assets by comparing net sales with average total assets. In the case of Auchan, we could see from the table that Asset Turnover i sis progressively decreasing during the pass three (3) years. The asset turnover ratio shows 5.38; 5.57 and 5.82 for respectively 2016; 2017 and 2018. Which

means that every \$1 worth of assets in 2016 generated \$5.38 worth of revenue and every \$1 worth of assets in 2018 generated \$5.82 worth of revenue. This decreasing by 0.18 percent from 2016 to 2017 and 0.26 from 2017 to 2018 reflects the inefficient management of assets by the company and production or management problems.

The inventory turnover is also decreasing by -1.60 percent from 2017 to 2018. The company where able to sell 8.11 times its total average inventory dollar amount during 2017 and 6.51 times in 2018. Even though, the company is facing the decrease, the rate restock items is still well balanced with your sales.

The account payables turnover ratio has significantly decreased during the period of 2016 – 2018 from 15.14 times in 2016 to 15.96 times in 20.17 and 10.94 in 2018 which indicates that a company is taking longer to pay off its suppliers than in previous periods. Alternatively, this decreasing ratio could means that the company has negotiated different payment arrangements with its suppliers.

The company has a negative cash conversion cycle during these period of time, it means that it needs less time to sell its inventory and receive cash from its customers compared to time in which it has to pay its suppliers of the inventory as result of the increasing of the days inventory outstanding.

The company's current ratio, is below 1 throughout the pass 3 years. Which means the Auchan is at risk of having financial difficulty. It is also shown with the current ratio which is below 1 as well (table 2.6).

This risk of the company is demonstrated by all indicators of liquidity. The quick ratio is 0.09 in 2016; -0.01 in 2017 and 0.24 in 2018 all less than 1, which means that the company does not have enough quick assets to pay for its current liabilities. The solvency ratios is below 20%. This means that the company is not able to close out its long-term debt obligations when they come due using operating income. Lenders looking through a company's financial statement will usually use the solvency ratio as a determinant for creditworthiness.

Measuring cash flow rather than net income is a better determinant of solvency, especially for companies that incur large amounts of depreciation on

their assets but have low levels of actual profitability.

Table 2.6

Liquidity ratio of Auchan Group Retail, 2016-2018

Indicators	2016 year	2017 year	2018 year	Absolute deviation 2017 / 2016	Absolute deviation 2018 / 2017	Normative level
Cash Ratio	0,25	0,13	0,10	-0,13	-0,02	0,2 - 1
Current Ratio (Working capital ratio)	0,75	0,74	0,73	-0,01	-0,01	1 - 3
Quick Ratio (Acid-test ratio)	0,35	0,37	0,29	0,02	-0,07	>0,7 - 08
Solvency Ratio	18,14	9,69	6,93	-8,46	-2,75	
Financial Leverage (Debt-to-Equity Ratio)	14,90	5,10	4,00	-9,80	-1,10	1 - 1,5

That is the reason why the company is highly leverage, with -14.90 ; -5.10 ; and -4 respectively in 2016 ; 2017 and 2018 This ratio indicates that the higher the degree of financial leverage, the more volatile earnings will be. Since interest is usually a fixed expense. This is good when operating income is rising, but it can be a problem when operating income is under pressure.

A decreasing of the ROE suggests that Auchan is loosing its ability to generate profit without needing as much capital. It also indicates how difficult Auchan's management is deploying the shareholders' capital. A deviation of -2.85 percent from 2017 to 2018 shows a bad sign of the company's managenent.

There is a deficit of the most liquid assets to cover urgent current liabilities. According to the result of working capital ratio, Auchan is not going to be able to meet its current obligations in a timely manner. The company will find itself in difficult situation when it comes to fact its maturing obligations. Because liquidating all current assets except inventory will not generate enough cash to pay. However, the company has a strong potential to meet its long-term obligations without ignoring its low leverage, which indicates its financial strength. Also, it might be able to secure new capital if it is incapable of meeting its current obligations (table 2.7).

Table 2.7

Liquidity / Debt Ratios of LLC Auchan group retail, 2016–2018

Index	01.01.2016	01.01.2017	The absolute deviation	01.01.2018	The absolute deviation	A basic absolute deviation	01.01.2019	The absolute deviation	A basic absolute deviation
Cash Ratio	0,35	0,25	-0,10	0,13	-0,13	-0,22	0,10	-0,02	-0,25
Current Ratio (Working capital ratio)	0,82	0,75	-0,07	0,74	-0,01	-0,08	0,73	-0,01	-0,09
Quick Ratio (Acid-test ratio)	0,43	0,35	-0,09	0,37	0,02	-0,07	0,29	-0,07	-0,14
Solvency Ratio	20,99	18,14	-2,84	9,69	-8,46	-11,30	6,93	-2,75	-14,05
Financial Leverage (Debt-to-Equity Ratio)	11,32	-14,90	-26,22	-5,10	9,80	-16,41	-4,00	1,10	-15,32

The period's expenses exceed income and the company has much more short-term debt than it has to be. Thus, it has to decrease to short-term, Auchan's current assets content more inventories which are least liquid of the current assets and their liquidation value is most often uncertain, So, we must improve the quick ratio by increasing our liquidly asset.

The company has the possibility to borrow more money that we will invest in productive projects. Auchan is using debt and other liabilities to finance its assets, we must increase our asset and decrease the liabilities which is mostly composed of short-term debts (table 2.8).

The companies has a low proportion of assets that are financed by stockholders, as opposed to creditors it will produce good results for stockholders as long as the company earns a rate of return on assets that is greater than the interest rate paid to creditors.

Table 2.8

Financial Stability Ratios of LLC Auchan group retail, 2016–2018

Index	01.01. 2016	01.01. 2017	The absolute deviation	01.01. 2018	The absolute deviation	A basic absolute deviation	01.01. 2019	The absolute deviation	A basic absolute deviation
Equity Ratio	0,08	-0,07	-0,15	-0,24	-0,17	-0,33	-0,33	-0,09	-0,41
Debt Ratio	0,92	1,07	0,15	1,24	0,17	0,33	1,33	0,09	0,41
Capitalization Ratio	0,56	1,74	1,18	16,37	14,62	15,81	18,64	2,27	18,07
Accounts Payable-to-AccountsReceivable Ratio	7,76	4,73	-3,03	5,42	0,69	-2,34	3,71	-1,71	-4,05

A ratio of -0.33 which shows that a considerable portion of debt is funded by assets. In other words, the Auchan has more liabilities than assets. This also indicates that it may be putting itself at a risk of default on its loans if interest rates were to rise suddenly. In addition the company has high capitalization ratio, meaning the company is using long term liabilities which is good. Also, there is a higher accounts receivable than accounts payable.

Table 2.9

Turnover Ratios of LLC Auchan group retail, 2016–2018

Index	2016	2017	The absolute deviation	2018	The absolute deviation	A basic absolute deviation
Asset Turnover	5,38	5,57	0,18	5,82	0,26	0,44
Inventory Turnover	12,79	10,36	-2,44	9,91	-0,44	-2,88
AccountsReceivable Turnover	121,35	120,54	-0,81	78,36	-42,18	-42,99
Accounts Payable Turnover	15,14	15,96	0,82	10,94	-5,03	-4,20
Days Inventory Outstanding (Days Sales of Inventory)	2,56	2,54	-0,03	3,85	1,32	1,29
Cash Conversion Cycle	-21,21	-20,01	1,20	-29,06	-9,04	-7,84

The company makes use of more of debt and less of equity in its funding.

Therefore, it is imperative that the company works towards improving the debt to total asset ratio. Auchan doesn't borrow more, we have to rise the capitalization ratio and think of reducing the accounts payables and increase the receivables.

The return on equity indicates a low profitability and weak financial position of the company and cannot cover potential investors into actual common stockholders (table 2.10).

Table 2.10

Profitability Ratios of LLC Auchan group retail, 2016–2018

Index	2015	2016	The absolute deviation	2017	The absolute deviation	A basic absolute deviation
ROE (Return on Equity)	-2,00	3,38	5,37	0,53	-2,85	2,52
ROA (Return on Assets)	-0,16	-0,24	-0,08	-0,13	0,11	0,03
ROI (Return on Investment)	0,17	0,19	0,02	0,21	0,01	0,04
ROD (Return on Debt)	-1,57	-1,44	0,12	-0,49	0,95	1,07
ROR (Net Profit Margin)	-0,03	-0,04	-0,01	-0,02	0,02	0,01
Operating Expenses Ratio	-0,04	-0,05	-0,02	-0,03	0,03	0,01
Capital Loss Ratio	-1,85	-0,78	1,07	-0,34	0,44	1,51

Auchan achieved -33% return on equity (ROE) over the 12 months that ended in december 2018, with 6.66 billion UAH in total revenue and 471.11 million UAH in average net shareholder equity. Auchan's recent ROE falls comfortably within its historical range and compares favorably to its peers. Net profit margin and financial leverage are the largest factors driving volatility in ROE, while high asset turnover and a high equity multiplier have pushed Auchan's ROE above those of its peers despite the company's narrow net profit margin.

When return on assets point to efficient operations and profitable outcomes of the company as it accelerate the return on assets. In addition, the ROD and ROR show the company's ability to use it net income to pay off its long term debts and therefore be able to efficiently converting revenue into profit. However, there's a deficit in return on Investment which means that costs outweigh returns.

The company finance its investment with the long term debts, the gross profit margin is higher than the concurrences and the quantity of sells in increasing.

2.3. Diagnostics of bankruptcy situation of the enterprise

Fictitious bankruptcy - consciously untruthful official statement of a citizen a founder or a proprietor of an economic agent, as well as of an official representative of an economic agent and of a citizen, a subject of entrepreneurial activity, about financial insolvency to fulfill creditors' requirements and liabilities.

Leading to bankruptcy –actions of a proprietor or an economic agent which resulted in steady financial insolvency of an economic agent (made intentionally, by selfish motives, or personal interests or for the benefit of the third person).

The hidden bankruptcy is intentional concealment of steady financial insolvency by way of giving distorted information that lead to considerable financial damage (table 2.11).

a)   Current insolvency

The table shows a positive sign of overdue accounts payable and positive value of insolvency result. This means that the company is facing insolvency situation, it's not going to be able de meet its short-term obligations.

b)   Critical insolvency

The criterial insolvency indicators are greater than 1. Which does not indicate bankruptcy situation for the company.

c)   Catastrophic insolvency (bankruptcy – liquidation is possible)

Throughout the entire process of analysis, we have seen some signs of insolvency but still the company does not have bankruptcy situation.

Table 2.11

Diagnostic of solvency level of LLC Achaun, 2018

N	INDEX	2018
1	**Current insolvency**	
1.1	Overdue accounts payable	+
1.2	Negative result of insolvency	92439,5
2	**critical insolvency**	
2.1	Signs of current insolvency	+
2.2	Current Ratio (Working capital ratio)	0,731
2.3	Equity to Current Assets Ratio	1,383
3	**Catastrophic insolvency (bankruptcy – liquidation is possible)**	
3.1	Current Ratio (Working capital ratio)	0,731
3.2	Loss at the end of the financial year	+

a)   Fictitious bankruptcy detection

The current asset ratio and return on sales indicates less than 1, the bankruptcy liquidation not real, there's fictitious bankruptcy.

b)   Leading to bankruptcy

The solvency ratios has significantly increased last years, that increasing shows that there is not leading to the bankruptcy.

c)   Diagnostic of bankruptcy by W.Beaver

According to the indicators of diagnostic, all indicated that the company will not face bankruptcy situation in before 5 years year. It confirm our diagnostic analysis which shows the decrease of working capital that point to the efficient operations and profitable outcomes of the company.

In this section, we are going to evaluation indexes which are calculated by special methods on the basis of indexes of balance and management accounting of enterprises.

Table 2.12

Diagnostic of bankruptcy situation of LLC Achaun, 2018

N	INDEX	2018

4	**Fictitious bankruptcy**	
4.1	Current Ratio (Working capital ratio)	0,731
4.2	Return on Sale (ROS)	0,194
	Leading to bankruptcy	
5,1	Asset-liability Ratio	0,856
5,2	Curent asset-liability Ratio	0,605
5,3	Net assets	2350845
5	**Diagnostic of bankruptcy by W.Beaver**	
5.1	Beaver Ratio	-0,717
5.2	ROA (Return on Assets)	-0,243
5.3	Current Ratio (Working capital ratio)	1,960
5.4	Net working capital to Assets Ratio	-0,461

Then identify the crisis state and revealing bankruptcy risk presupposes comparison of certain aggregates and making a diagnostic conclusion according to the set rules of estimation.

Aggregates which are used for making a diagnostic conclusion (table 2.13):

Net circulating assets of an enterprise (NCA)

$$NCA = OC (E) + LTL – FA$$

Common sources of reserves formation (*CSR*)

$$CSR=NCA+BC_{CAF}+AP_{Com}$$

where:

BC_{CAF} – bank credits for circulating assets formation; AP_{Com}– accounts payable for commodities.

Supplies and costs (S&C)

$$S\&C=I+CA_{other}+DC$$

Table 2.13

Aggregate model of LLC Achaun, 2016-2018

Indicator	Calculation method		
	2016	2017	2018

1	Net circulating assets of an entreprise (NCA)	-294628	-461151	32380
2	Common sources of reserves formation (CSR)	235966	351070	937099
3	Supplies and costs (R&C)	328705	444117	569106

The aggregate model shows that NCA< S&C< CSR, which means that the company is in Normal financial stability. This type of financial stability testifies about the efficient policy of involvement and use of the loaned funds because an enterprise production needs are fully provided with various common sources of financing, the term of which repayment didn't come.

The system of evaluation of the company has shown an index of 27 – 24 (table 2.14), it has confirmed once again as indicated in our previous analysis that he average degree of reliability, the company has sufficient stable financial position, introducing measures against various kinds of risks, has good prospects to improve their future performance. All indexes relate to the second zone. However, there are signs of tension in the financial condition of the company.

According to the Order of a beneficiary financial state estimation and identifying the type of allowance for debt supporting and repayment, granted at the expense of international financial organizations, the estimation of financial state of a beneficiary is made by calculation and interpretation of an integral index of financial state.

A borrower's ability to support the obtained loans is determined on the basis of the calculation of current and prognostic debt-to-equity rate. The Z score model only gives guidance below the danger level of 1.81.

Table 2.14

The system of evaluation indexes of LLC Achaun stability, 2016-2018

INDEXES	Indicaters			Class			Index		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Profitability									

Net profit increment, %	1,82	0,67		3	3		1	1	
Return on assets, %	-0,16	-0,24	-0,13	3	3	3	1	1	1
Current assets turnover	7,20	6,94	7,57	2	2	2	2	2	2
Economic potential									
Plowback ratio, %		-57,09	-145,78		3	3		1	1
Accumulated Depreciation Ratio, %	56,69	60,30	60,07	3	3	3	1	1	1
Output Profitability, %	-0,14	-0,18	-0,15	3	3	3	1	1	1
Sales increment, in correlated prices, %	25,63	32,97	10,00	1	1	1	3	3	3
Turnover of invested capital	35,64	95,30	313,55	1	1	1	3	3	3
Fixed-to-Circulating Assets Ratio	0,48	0,41	0,38	3	3	3	1	1	1
Production sales to population, %				2	2	2	2	2	2
Ratio between workers'quantity growth rate and labour productivity growth rate				2	2	2	2	2	2
Financial stability and solvency									
Cash Ratio, %	0,35	0,25	0,13	3	2	1	1	2	3
Equity Ratio, %	0,08	-0,07	-0,24	1	1	1	3	3	3
Current ratio (working capital ratio)	0,82	0,75	0,74	1	1	1	3	3	3
TOTAL							**24**	**26**	**26**

Further investigation is needed for those organisations with scores between 1.81 and 2.99. As Auchan is retail trade company, the formula that will be used is (table 2.15):

$$Z=1,03\times K_3+0,001\times K_4+0,16\times K_6+0,6\times K_7+2,9\times K_8+0,08\times K_9-0,14$$

This is the standard according to the ministry of finance of Ukraine order 22.10.2009 no. 1234

Table 2.15

Scale of quality of LLC Achaun financial state, 2018

Scale of quality of a beneficiary's financial state (Z)	2018	
		0,023

(k1) Working Capital Ratio	0,73
(k2) Cash ratio	0,10
(k3) Equity Ratio	-0,333
(k4) Equity to Fixed Assets	-1,052
(k5) Return on Equity	0,527
(k6) EBIT (NOI/NR)	0,000
(k7) Earnings before interest, taxes	0,009
(k8) Return on Assets	-0,129
(k9) Current Asset Turnover	10,931
(k10) Liabilities Turnover	0,148

Despite the aggregate model analysis shows that the company has a normal financial stability, the statistical model reveals a Z-score of 0.023 which is less than 1.8. Therefore the probability of financial embarrassment is very high for Auchan.

CHAPITRE 3
DIRECTIONS OF IMPROVEMENT OF AUCHAN FINANCIAL STATE

To insure that efficient liquidity is maintained, prudent cash flow management requires that both capital and financial budgets are prepared. These budgets aim at estimating cash flows and the approximate asset and liquidity position at future point in time during the planned period. In particular, the capital budgets are necessary for make investment and financing decisions.

The result of the budget planned process is a set of forecast statements in the quantitative and financial terms which together make up the master budget. This will include a forecast statement of net income, a forecast balance sheet and a forecast financial plan.

Based on the previous analysis, it has reveal a lot of irregularities on certains indices of the company. To forecast its future, we will need to modify to improve the company's financial health for the coming years.

1. Liquidity

-      Cash Ratio

According the above analysis, the cash ratio is belong the standard. By decreasing the total liabilities by 20% and increased of cash by 20% will fixe the cash ratio.

-      Current Ratio (Working capital ratio)

The current ratio indicated that the company will not be able to meet it current obligations in timely manner, the solve the issue, the company has to increase it current assets by 15% the reach the normal standard.

-      Quick Ratio (Acid-test ratio)

The Quick ratio must which adjust the current asset is generallly 1 :1. Auchan is belong the standard, therefore, the quick asset of the company should be raise by 10% to fixed the irregularity.

- Solvency Ratio

The company has more debts than it should be. We should lower the short term debts by 20% the stabilise the company's solvency situation.

- Financial Leverage (Debt-to-Equity Ratio)

The company is highly leverage, because of it low shareholders equity. The company should increase it equity by 20% for the coming year.

2. Financial Stability Ratios

- Equity Ratio

The company's shareholders equity is signifiquantly low, which could negatively impact the company's financial healh. The equity of the company should be increase by 20%

- Debt Ratio

In general, a lower ratio is better. Value of 1 or less in debt ratio will show good financial health of the company. Thus, we should increase the total assets by 15% and decrease the total debt by 20%.

3. Turnover Ratios

- Asset Turnover

The higherthe asset turnover ratio, the more efficient is the company. Auchan's asset turnover is decreasing significantly from 12..4 in 2015 to 4.38 in 2017. The correct it, the company will increase it tolat sales by 25%.

- Inventory Turnover

As you can see above, auchan's turnover is 6.51 in 2017. This means that Auchan only sold 6.51 times its inventory during the year. The company should optimize the cost of the goods sold.

- Accounts Receivable Turnover

The receivable ratio is lowering during the past three years. The implies that the company should reassess its credit policies to ensure the timely collection of its receivables. By improving the collection process, it will lead to an influx of cash

from collecting on old credit or receivables.

- Accounts Payable Turnover

The company has negociated the different payment arrangements with its suppliers. Resolving cash flow problems by delaying payments for current liabilities only makes a bad situation worse. Financial penalties for late payment of taxes are bad enough but the inevitable loss of confidence in your business that goes with late payment to suppliers will be worse still by putting commercial credit and therefore operating cash flows at risk. However, delaying the payment could generate fees. The company should decrease its payable by 5%.

The forecast statement of net income is a statement of the net income anticipated during the planning period. It is compiled by combining all the budget s that have been prepared. From these can be derived a projected surplus or profit for the planned period. Once the exercise has been completed, the forecast may be considered unsatisfactory. In that case, a further review of proposed activities and a reallocation and reorganization of resources will be needed. In this review, performance indices can give a guide to areas that could need to be modified or changed.

Planned period income statement is given in the table 3.1.

1. Planned revenue

Determining the growth rate over a one-year period is straightforward; we take the sales difference, divide it by the starting revenue total, and multiply the result by 100. we'll outline the entire calculation.

$$Growth\,rate\,of\,revenue = \frac{Revenue\,2018}{Revenue\,2016} * 100$$

$$Growth\,rate\,of\,revenue = 1.5986$$

Revenue 2019 = Revenue 2018 * 1.5986

Revenue 2019 = 1 4170 941,6

2. Costs of sales planned period

The cost of goods sold (COGS) budget is essentially part of your operating

budget. COGS is the direct expense or cost of the production for the goods sold by the company. These expenses include the costs of raw material and labor but do not include indirect costs such as that of employing a salesperson. The company has many different types of budgets, each serving a specific purpose. Such budgets include the operating budget, sales, budget, static budget, and cash-flow budget. Budgets interrelate to one another giving a full financial picture of the company. With the adjustment of the overall cost, Auchan will be able to optimize its costs of goods sold in 2019.

Table 3.1

Planned period income statement of LLC Auchan

Item	2018	2019p	2020p	2021p	2022p
Net income (revenue) from sales of products (goods and services)	**8864595**	**14170941**	**15588035,1**	**23382052,7**	**26889360,5**
Cost of sales of products (goods and services)	**7331569**	**9376197**	**10313816,7**	**10829507,5**	**11046097,7**
Gross:					
profit	**1533026**	**4794744**	**5274218,4**	**12552545,1**	**15843262,9**
Other operating income	129781	**142759,1**	**157035,01**	**172738,511**	**190012,362**
Administrative expenses	130319	**130319**	130319	130319	130319
Selling expenses	1175282	**956214**	817546	958645	789456
Other operating expenses	259752	**259752**	259752	359752	329752
Financial results of operations:					
profit	**97454**	**3591218,1**	**4223636,41**	**11276567,6**	**14783748,2**
loss					
Income from equity					
Other financial income	854	**4020**	**3256**	**2014**	**2565**
Other income	192090	**14865**	**24586**	**2342**	**21548**
Financial expenses	60772	**61235**	**63125**	**58945**	**24586**
Losses from equity					
Other expenses	**425233**	**56894**	**24586**	**958642**	**53426**
Financial results before tax:					
profit		**3454204,1**	**4108083,41**	**10254624,6**	**14681623,2**
loss	**-195607**				
Expenses (income) income tax					
Profit (loss) from discontinued operations after tax					
Net financial result:					
profit		**3454204,1**	**4108083,41**	**10254624,6**	**14681623,2**
loss	**-195607**				

Costs of goods sold 2019 = (Revenue 2019* costs of sales 2018/ revenue 2018)

Costs of goods sold = (14170 941, 6 * 7 331 569/ 886 4595)

Costs of goods sold = 11720 246

If there is not changing about the costs of goods sold, it will be 11720246,2. However, a decrease of the costs by 20 percent will be in 2019 :

Costs of goods sold = 11720 246 * 0.8

Costs of goods sold = 9 376 19

The first step in straight-line forecasting is to find out the sales growth rate that will be used to calculate future revenues. For 2018, the growth rate was 10% based on historical performance. Assuming the growth will remain constant into the future, we will use the same rate for 2019 – 2021.

Balance sheet planned period is given in Appendix B.

The forecast balance sheet shows the assets and liabilities at the end of the budget period. It covers a number of budgeting periods, they show balance sheets at the end of each control period throughout the entire plan. These will be the anticipated assets and liabilities of the company, provided that the plan as outlines in the budgets successfully implemented.

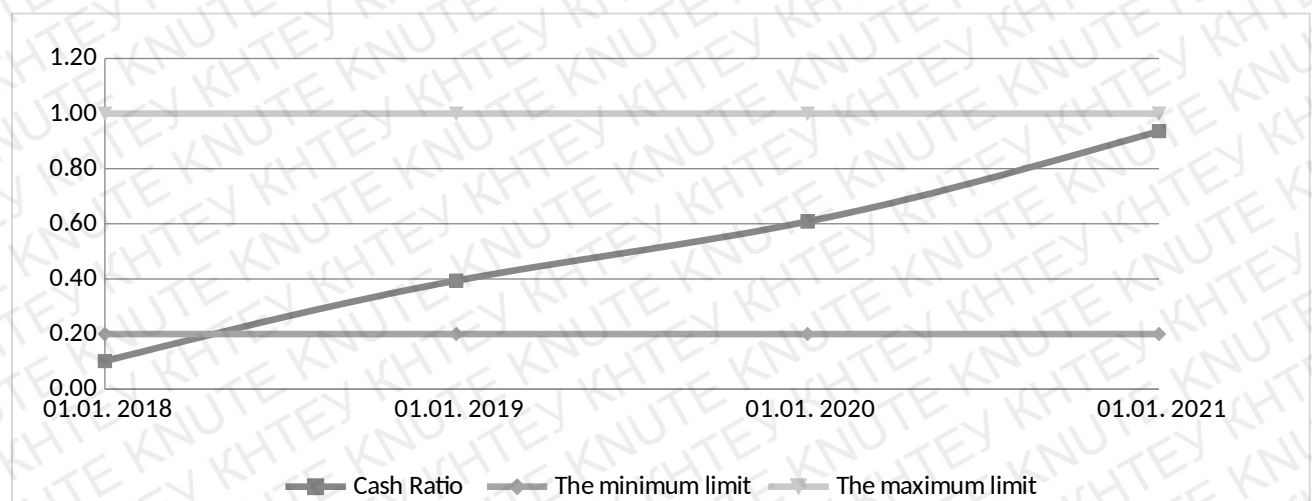Cash ratio in planned period is represented on fig 3.1.

Figure 3.1 Indicators of liquidity of LLC Auchan group retail, 2018–2021

The fig. 3.1 shows an important increasing of the cash ratio of Auchan during the planned period, if the company is able to improve its current assets by 15%, it will significantly improve the company's cash ratio and unable the company to face its current obligations in timely manner.

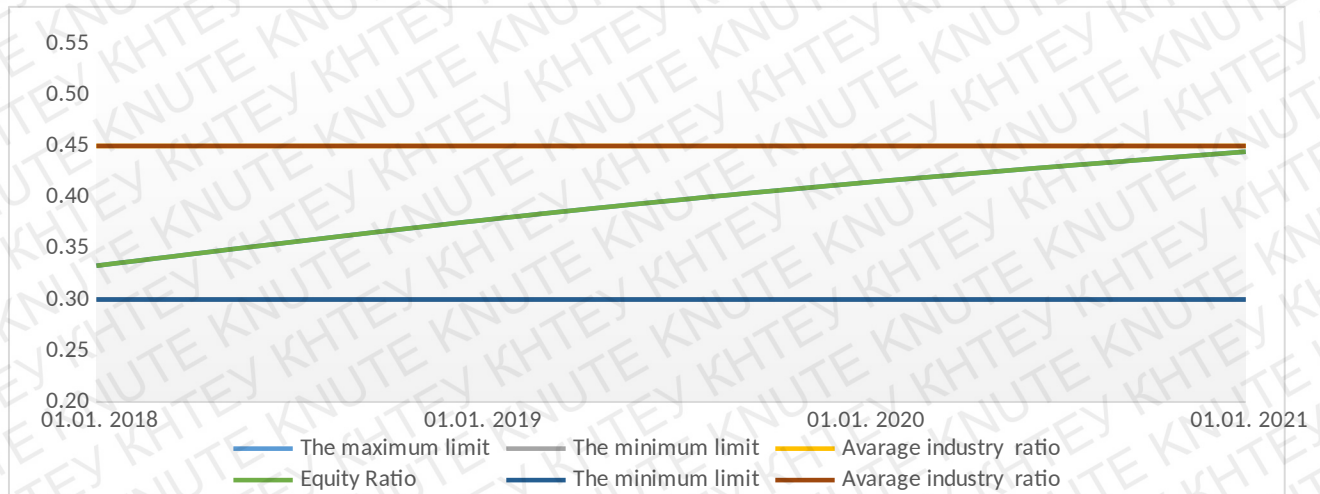Equity ratio in planned period is represented on fig 3.2.

Figure 3.2 Indicator of equity of LLC Auchan group retail, 2018–2021

In the current situation of the company, we have negative equity ratio -0.1. Negative equity, also known as negative net worth occurs when the value of net assets are in deficit.This defines an insolvent balance sheet. Increasing borrowings while continuing to operate with an insolvent balance sheet carries the very real risk of action for wrongful operating if the company subsequently goes into liquidation. An increasing of the shareholders equity of the company by 20% shows a changing of the situation. We can see through the graph that the equity ratio could hit 0.7 which gives a high rank of stability of the company.

A lower debt ratio (fig. 3.3) is known to be the better financial health of the company. We can see that the minimizing of the total debts 20% by the company is will able to pass from 1.2 which is above the standard to 0.17. this will indicate good financial health of the company.

Based on the above analysis, it will be necessary to improve the company's

indicators to redirect it financial health.
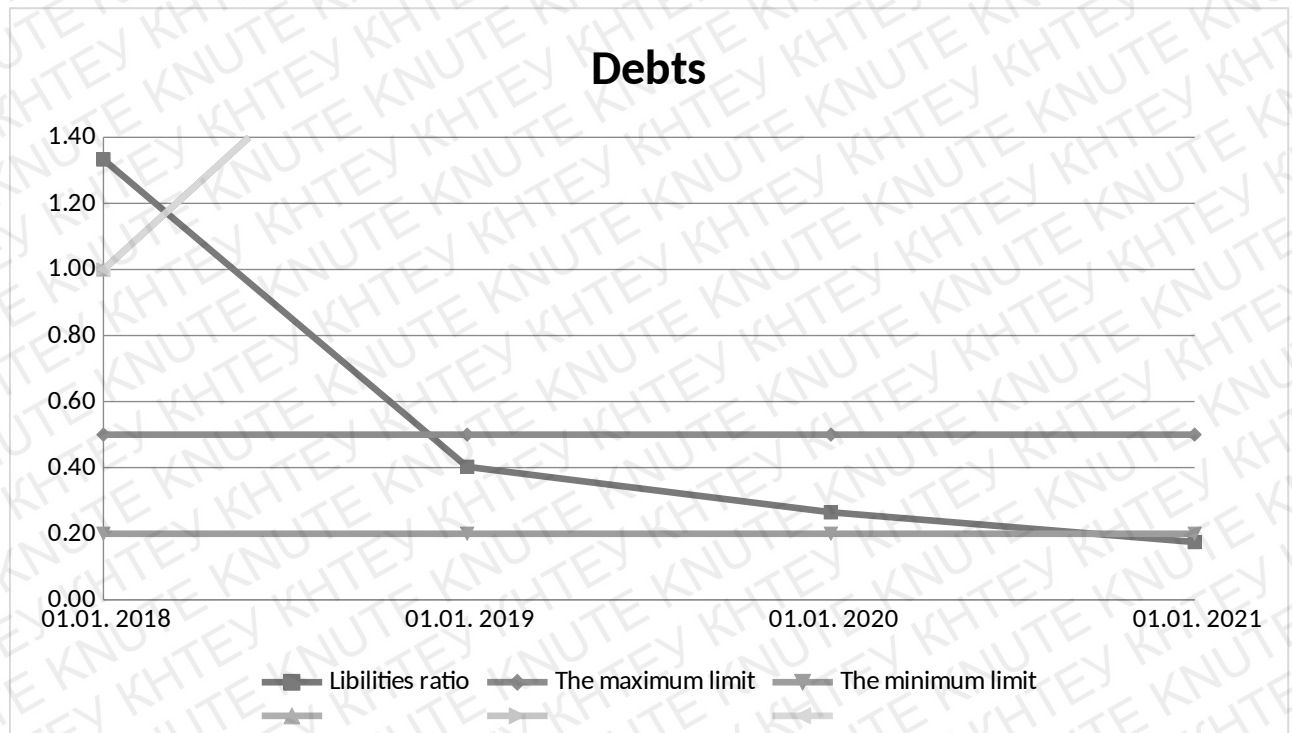
Debts

Figure 3.3 Indicator of debt of LLC Auchan group retail, 2018–2021

Success of crisis management of the enterprise directly depends on performance of certain functions. Functions of crisis management – it is separated from each other the directions of administrative activity which essence consists in prevention of emergence of anti-recessionary actions. If to pass to a specification of definition of the main functions of crisis management, then note that all of them are set of certain actions and operations which aim at anti-recessionary character and which are carried out for coordination of the main actions of firm at an exit from a crisis.

To improve its financial situation and prevent crisis phenomena, Auchan needs:

- to increase the assets, by finding ways to increase revenues without increasing asset cost,

- reduce the asset costs and expenses, Increase revenues through

improved customer service or by exploring market segments,

-       Reduce the cost of materials by renegotiating with suppliers or finding new suppliers.

-       Lower shipping costs through renegotiation or by charging a shipping fee to customers.

-       The manager must improve the return on asset by increasing profitability, better management of inventory, and restructuring debt.

-       To decrease the debt, we have to increase profitable sales. ..

-       Ask employees how to reduce overhead, watch inventory, restructure debt, sell assets and lease them back and bring in investors.

-       To reduce our accounts payable, we must pay off our suppliers, credit card payments, etc.,,, or by selling more our inventory. Therefore, a marketing strategy must be developed by the corporation based upon researched knowledge of the market, i.e. competitors, pricing and quality requirements, market shares and product range: production capacity must be based on measured performance targets.

-       The company can increase its asset turnover ratio by not letting its merchandise build up in storage. Rather, it should always keep its shelves fully stocked with salable items at all times. It should also limit purchases of inventory until it needs additional supplies.

-       It could increase its asset turnover ratio by only purchasing new inventory after most of its items are bought.

-       If it's improve the cash flow problem, the company has to negotiate better payment terms which will allow it to make payments less frequently, without any penalty. The additional money can then be used to make additional purchases or pay down outstanding debt.

-       To increase the return on equity, we can finance ourselves with debt and equity capital, increase profit margins, improve asset turnover

-       Reducing Asset Costs, Increasing Revenues and Reducing Expenses are the solutions the raise our net income

- The company must sell more in order to pay off all of its liabilities.

- Better management of operating expensive (electricity, etc…) and revealing the prices of the products.

- Review all of the expenses that relate to our cost of goods sold by reducing labor and operations costs and Audit utilities and insurance.

CONCLUSIONS AND PROPOSALS

To avoid detection and preventive insolvency situations, it is necessary to define and establish conditions that can cause this condition and specify the paths to allow removal of the state of crisis and will entail ensuring sustainable economic growth In turn.

We note that financial stability remains a basic factor of an entity and is owned by the state financial resources, distribution and use, ensuring a continuous activity based on income and capital growth, while maintaining an appropriate level of liquidity and credibility in conditions of uncertainty.

In order to ensure financial stability and avoid insolvency situation, it is necessary for the company to use a wide range of methods by which it can record the results projected. In selecting these methods must take into account the actual conditions of the company's financial activity. At the current stage of economic development to identify negative trends in enterprise development, forecasting the state of bankruptcy is placed in the first position. However, the methodology to accurately predict a negative result practically does not exist. Moreover, there is a single source which describes the majority of known methods. To make accurate predictions, we need a comprehensive study analyzed enterprise branch. The future is always doubtful so any taken decision for the future implies a huge amount of risk or vice versa.

The risk is like a balance between the possible results especially those of favorably use in a future action. The fragile economical and layer finance is the result of some debentures payment-difficulties they can decrease the workers-input value as well as storming the manipulation and in some cases the crash of the economical agent.

Success of crisis management of the enterprise directly depends on performance of certain functions. Functions of crisis management – it is separated from each other the directions of administrative activity which essence consists in prevention of emergence of anti-recessionary actions. If to pass to a specification

of definition of the main functions of crisis management, then note that all of them are set of certain actions and operations which aim at anti-recessionary character and which are carried out for coordination of the main actions of firm at an exit from a crisis.

To improve its financial situation and prevent crisis phenomena, Auchan needs:

- to increase the assets, by finding ways to increase revenues without increasing asset cost,

- reduce the asset costs and expenses, Increase revenues through improved customer service or by exploring market segments,

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- Ask employees how to reduce overhead, watch inventory, restructure debt, sell assets and lease them back and bring in investors.

- To reduce our accounts payable, we must pay off our suppliers, credit card payments, etc., or by selling more our inventory. Therefore, a marketing strategy must be developed by the corporation based upon researched knowledge of the market, i.e. competitors, pricing and quality requirements, market shares and product range: production capacity must be based on measured performance targets.

- The company can increase its asset turnover ratio by not letting its merchandise build up in storage. Rather, it should always keep its shelves fully stocked with salable items at all times. It should also limit purchases of inventory until it needs additional supplies.

- It could increase its asset turnover ratio by only purchasing new

inventory after most of its items are bought.

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- Reducing Asset Costs, Increasing Revenues and Reducing Expenses are the solutions the raise our net income

- The company must sell more in order to pay off all of its liabilities.

- Better management of operating expensive (electricity, etc…) and revealing the prices of the products.

- Review all of the expenses that relate to our cost of goods sold by reducing labor and operations costs and audit utilities and insurance.

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APPENDIXES

Appendix A

Table A.1

Liquidity Ratios

N°	Indicators	Formula	Normative	Explanation
1	Cash Ratio	$CR = \dfrac{C + CFI}{STL}$	0,2 – 1	Evaluate the opportunity of the enterprise to pay off current (ST) liabilities
2	Quick Ratio	$QR = \dfrac{CA - I}{STL}$	>0.7 – 0.8	Evaluate the ability of the enterprise to pay off current liabilities through only cash and accounts receivables.
3	Solvency Ratio	$WCR = \dfrac{C - CFI}{DC/D}$	Daily	Evaluate the ability of the enterprise to cover current costs through only cash and current financial investment.
4	Working Capital	Wc = CA - CL	> 0	Evaluate the ability of the enterprise to cover current liabilities through current assets.
5	Financial Leverage	$Fl = \dfrac{TL}{E}$	1 – 1.5	Evaluate financial stability of enterprise (ability to pay off all debts).

Table A.2

Debt Ratios

N°	Indicators	Formula	Normative	Explanation
1	Equity Ratio	$CR = \dfrac{E}{TA}$	= 0.5	Evaluate the ratio between equity and total assets.
2	Debt Ratio	$CR = \dfrac{TL}{TA}$	= 0.5 Not more than 0.6-0.7	Evaluate the ratio between debts and total assets.
3	Capitalization Ratio	$CR = \dfrac{LTL}{LTL + E}$	= 0.5 Not more than 0.6-0.7	evaluate the ratio between long-term debts and all sources of investment
4	Accounts Payable-to-Accounts Receivable Ratio	$APAR = \dfrac{AP}{AR}$	The higher the better it is	Measures the rate at which Accounts Payable are being Payable Accounts Payable paid on an annual basis.

Table A.3

Business Activity Ratios

N°	Indicators	Formula	Explanation
1	Asset Turnover	$AT = \dfrac{NR}{TA}$	Evaluate income return from using assets.
2	Inventory Turnover	$IT = \dfrac{S}{AI}$	Evaluate how many time the enterprise uses its inventory per year.
3	Accounts Receivable Turnover	$ART = \dfrac{NR}{AR}$	Evaluate enterprise's receivables policy
4	Accounts Payable Turnover	$APT = \dfrac{S}{AP}$	Evaluate enterprise's payable period
5	Cash Conversion Cycle	$CCS = DI - \dfrac{D}{APT}$	Period of cash turnover (from day of current assets investment till the day of covering investment).
6	Days Inventory Outstanding	$DI = \dfrac{D}{ART} + \dfrac{D}{IT}$	It is a period from the starting day of inventory investment till the firs day of receiving revenue.

Table A.4

Profitability Ratios

N°	Indicators	Formula	Normative	Explanation
1	ROE (Return on Equity)	$ROE = \dfrac{¿}{E}$	15-20%	Evaluation how efficiently the company is taking advantage of its base of assets
2	ROA (Return on Assets)	$ROA = \dfrac{¿}{TA}$	The higher thethe better it is	Its shows the percentage of profit the company is earning in relation its overall resources
3	ROI (Return on Investment)	$ROI = \dfrac{NR}{S}$	2:1	Evaluate the efficiency of an investment or to compare the efficiencies of several different investments
4	ROD (Return on Debt)	$ROD = \dfrac{¿}{LTL}$	over 15%	Its shows how much the usage of borrowed funds contributes to profitability.
5	ROR (Net Profit Margin)	$ROR = \dfrac{¿}{NR}$	>0	Measure the amount of return on a particular investment, relative to the investment's cost
6	ROS (Operating Margin)	$ROS = \dfrac{¿}{S}$	>1	Evaluate how efficiently the company is at generating profits from its revenue
7	Capital Loss Ratio	$R = \dfrac{¿}{NR}$	The lower the ratio, the more profitable	Its represents the percentage of fund capital in deals realized below cost, net of any recovered proceeds, over the total amount invested.
8	Operating Expenses Ratio	$OER = \dfrac{NOI}{OE}$	low operating ratio means a high net profit ratio	Measurement of what it costs to operate a property compared to the income that the property generate

Appendix B

Balance sheet for plannedperiod

Assets	01.01. 2018	01.01. 2019p	01.01. 2020p	01.01. 2021p	01.01. 2022	01.01. 2023
I. Fixedassets						
Intangible assets:	46489,0	46291,0	55549	66659	79991	95989
initial value	66925,0	71286,0	85543	102652	123182	147819
accumulateddepreciation	20436,0	24995,0	29994	35993	43191	51830
Incomplete capital investments	32233,0	51008,0	61210	73452	88142	105770
Fixedassets:	245186,0	307253,0	368704	442444	530933	637120
initial value	647455,0	736182,0	883418	1060102	1272122	1526547
depreciation	402269,0	428929,0	514715	617658	741189	889427
thatrecordsunder the equitymethodotherenterprises	15,0	15,0	18	22	26	31
otherfinancialinvestments						
Long-termreceivables	86440,0	80748,0	96898	116277	139533	167439
Deferredtaxassets						
Otherfixedassets						
Total for Section I	**410363**	**485315**	**582378**	**698854**	**838624**	**1006349**
II. Currentassets						
Inventories	563075,0	733762,0	843826	970400	1115960	1283354
Currentbiologicalassets						
Accountsreceivable for products, goods, works, services	93560,0	157406,0	181017	208169	239395	275304
Receivablesaccounts:						
for advancespaid	10349,0	33077,0	38039	43744	50306	57852
with a budget	20115,0	55108,0	63374	72880	83812	96384
includingincometax	19463,0	20403,0	23463	26983	31030	35685
for internalpayments	215499,0	44019,0	50622	58215	66947	76990
Othercurrentreceivables	6579,0	3330,0	3830	4404	5065	5824
Currentfinancialinvestments						
Money and cash equivalents	187702,0	171298,0	196993	226542	260523	299601
Prepaidexpenses	8629,0	9062,0	10421	11984	13782	15849
Othercurrentassets	6031,0	22245,0	25582	29419	33832	38907
Total for Section II	**1111539,0**	**1229307,0**	**1413703,1**	**1625758,5**	**1869622,3**	**2150065,6**
III. Non-currentassetsheld for sale and disposal groups						
Balance	**1521902,0**	**1714622,0**	**1996081**	**2324612**	**2708247**	**3156415**

Liability	01.01. 2018	01.01. 2019	01.01. 2020	01.01. 2021	01.01. 2022	01.01. 2023
I. Equity						
The registered capital	635628,0	635628,0	635628,0	635628,0	635628,0	635628,0
Capital in revaluation						
Additional capital						
Reserve capital						
Retainedearnings (uncoveredloss)	1000984,0	1200691,0	1380795	1587914	1826101	2100016
Unpaid capital	5962,0	5962,0	7751	10076	13099	17028
Withdrawn capital						
Total for Section I	**-371318,0**	**-571025,0**	**-752917,3**	**-962361,6**	**-1203571,4**	**-1481416,1**
II. Long-termliabilities and ensuring						
Deferredtaxliabilities						
Long-termbankcredits	394214,0	600017,0	300009	240007	192005	153604
Other long-termliabilities	1268,0	3388,0	3049	2744	2470	2223
Long-termensuring						
Targetedfinancing						
Total for Section II	**395482,0**	**603405,0**	**303058**	**242751**	**194475**	**155827**
III. Currentliabilities and ensuring						
Short-termbankcredits	106861,0	32484,0	16242	8121	4061	2030
Currentaccounts payable						
for the long term obligations						
for goods and services	670212,0	804109,0	402055	301541	226156	169617
for payments to budget	10865,0	44293,0	33220	24915	18686	14015
includingincometax						
for insurancepayments						
for payments of wages	753,0	221,0	166	124	93	70
for advancedpayments	1800,0	4730,0				
for internalpayments	657924,0	699057,0				
Currentensuring	23530,0	23612,0	11806	10035	8530	7250
Othercurrentliabilities	25793,0	73736,0	36868	27651	20738	15554
Total for Section III	**1497738**	**1682242**	**500356**	**372387,1**	**278263,6**	**208535,5**
IV. Liabilitiesrelated to non-currentassetsheld for sale and disposal groups						
Balance	**1521902,0**	**1714622,0**	**1996081**	**2324612**	**2708247**	**3156415**